MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BSM3104 – STRATEGIC MANAGEMENT

(All sections / Groups)

2 MARCH 2017
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of FOUR (4) pages, excluding the cover page.
2. There are FOUR (4) questions in Section A, and THREE (3) questions in Section B. Attempt ALL questions. The distribution of marks for each question is as given.
3. Please write all your answers in the Answer Booklet provided.

SECTION A: CASE STUDY (40 MARKS)

Instruction: Read the case carefully and answer ALL four (4) questions at the end of the case. Your answers should not be limited to the content of the case.

Mergers and Acquisitions in Oil and Gas

After a challenging year for the oil and gas industry, 2016 will be pivotal for the industry as it faces a debt-driven shakeout, and Merger and Acquisition (M&A) takes center stage in many companies' transformation strategies.

Depressed oil prices and volatility shape the future O&G industry.
For oil and gas companies worldwide, 2015 was an extremely challenging year. Overall M&A deal value held steady from 2014, but the number of deals dropped markedly. To explain why companies largely curtailed M&A activity in 2015, industry executives repeatedly point to one thing: oil price volatility and the deep uncertainty it engenders.

We are in a pivotal year in 2016 where M&A is taking center stage in the transformation strategies of many companies. To understand how the market could evolve, we spoke with dozens of senior executives and performed a global study across the entire value chain—from the oil majors, national oil companies, and leading independents to service companies and financial investors.

Our interviews with industry leaders find that:

- Prolonged depressed and volatile oil prices are forcing companies to structurally reduce costs beyond traditional levels (e.g. price concessions from suppliers, laying off people).
- Financially weaker operators with high debt are facing liquidity issues and will be forced to sell to secure cash or have credit facilities withdrawn.
- At the same time, IOCs and larger stronger independents will be looking to streamline their portfolio and sell.
- There are limited buyers in the market, but this represents an opportunity for stronger companies and financial investors, who have been gathering dry power, with a long term view.

However price volatility is creating significant uncertainty and is delaying M&A decisions and actions – expect more creative deal structures to help bridge this uncertainty. In our view, 2016 is the year in which an array of pivotal decisions will be made across the oil and gas sector:

- **Independents.** Cash and liquidity concerns will lead to a shakeout for those with high costs and debt, but stronger independents will be able to acquire assets at a deep discount. As pressure builds, debt covenants and redeterminations will trigger M&A or bankruptcy with debt holders taking a more definitive role.
- **International oil companies.** The focus is on structural cost reductions, new strategies and operating models to succeed in a low oil price environment, and portfolio high-grading. Divestments and selective acquisitions are more likely than mega-mergers.
- **National oil companies.** Host governments' fiscal pressure will limit acquisitions, while local and global geopolitics will shape priorities. In the Middle East, the main focus is on fiscal austerity, while in China, opportunistic oil and gas M&A will play well into President Xi Jinping's "One Belt, One Road" vision.
- **Oil service companies.** Survival in tough conditions is the objective as the "price shock" radiates throughout the oil value chain. This year will bring consolidation as smaller companies become targets.

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- **Financial investors.** Financial investors have pulled together significant oil and gas-focused funds, with dry powder (cash reserves and liquid assets) yet to be drawn. The funds will aim to maximize long term value by acquiring prime assets cheaply.
- **Others.** Master limited partnerships (MLPs) were a major source of deal activity in 2015 but deal activity will slow down this year and remain subdued until upstream activity picks up.

The year ahead will require tough decisions and a survival mindset for the weak with a variety of unique opportunities emerging for buyers and sellers alike. For those willing to think and strategize creatively, 2016 will be transformational for individual companies and for the industry's long-term future.

Source: *https://www.atkearney.com/oil-gas/ideas-insights/m-a/2016*

a) *"After a challenging year for the oil and gas industry, 2016 will be pivotal for the industry as it faces a debt-driven shakeout and Merger and Acquisition (M&A) takes center stage in many companies' transformation strategies."*

Such transformation strategies mean companies embarking on the strategic management phases of formulation, implementation and evaluation. Discuss the importance of the implementation phase, emphasizing the relevance of the arts and science perspective in cross-functional decisions that enable an organization to achieve its objectives.

(10 marks)

b) Merger and acquisition can be an option for all three integrative strategies – forward, backward and horizontal integration. Identify and explain at least FOUR (4) guidelines when forward integration would be a particularly good strategy to pursue

(10 marks)

c) Identify and explain FOUR (4) reasons for undertaking mergers or acquisitions, in the context of the current global situation in the Oil and Gas Industry. Please use appropriate examples from the news article above.

(10 marks)

d) Instead of merging or acquiring, companies may choose a less risky and win-win partnership approach via joint ventures. Identify and explain at least FOUR (4) common problems that cause joint ventures to fail.

(10 marks)

[Total: 40 marks]

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SECTION B: ESSAY/STRUCTURED QUESTIONS (60 MARKS)
Instruction: There are THREE (3) questions. Answer ALL questions

QUESTION 1

(a) Differentiate vision statements with mission statements.

(4 marks)

(b) An effective mission statement would consist of nine major components. Based on Dell's mission statement below, identify any EIGHT (8) of the components that are covered in the mission statement and the corresponding statement/keyword that reflects the component *(Name of component - Keyword/statement)*.

> Dell's mission is to be the most successful computer company in the world at delivering the best customer experience in markets we serve.
> In doing so, Dell will meet customer expectations of highest quality; leading technology; competitive pricing; individual and company accountability; best-in-class service and support; flexible customization capability; superior corporate citizenship; financial stability.

(16 marks)

[Total: 20 marks]

QUESTION 2

(a) Compare and contrast business culture in the USA with Mexico.

(10 marks)

(b) List and explain FIVE (5) reasons why preserving the environment should be a permanent part of doing business.

(10 marks)

[Total: 20 marks]

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QUESTION 3

The table below shows the Internal Factor Evaluation (IFE) matrix of Nike, Inc. Answer the following questions based on the matrix.

Key Internal Factors		Weight	Rating	Weighted Score
Strengths				
a.	The world's largest sports apparel producer.	0.20	4	
b.	A large network of retail stores.	0.10	4	
c.	Growing international presence in more than 52 countries.	0.15	4	
d.	Great celebrity spokespersons.	0.10	4	
e.	Customer loyalty.	0.08	4	
f.	The company's website allows consumer to purchase directly from Nike.	0.08	4	
g.	Nike does not own any factories	0.15	4	
Weaknesses				
h.	Poor employment practices at their international manufacturing sites.	0.03	1	
i.	Heavy dependency on footwear sales.	0.06	1	
j.	Lack of stores serving females.	0.05	2	
Total		1.00		

(a) Calculate and list out the Weighted Scores for all the key internal factors.

(10 marks)

(b) Calculate and explain the meaning of the Total Weighted Score of the IFE matrix

(4 marks)

(c) Based on the IFE matrix, identify the THREE (3) most important internal factors for the company to compete successfully in the industry. How well is Nike performing in these three most important factors?

(6 marks)

[Total: 20 marks]

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